

Disclosure of Capital Adequacy (Basel II)
As on 14th Jan 2011 (30st Poush 2067)

1. Capital Structure and Capital Adequacy

In NPR

| 1.1 RISK WEIGHTED EXPOSURES | | Current Month | Previous Month |
|--|---|-----------------------|-----------------------|
| a | Risk Weighted Exposure for Credit Risk | 15,942,420,744 | 15,561,856,454 |
| b | Risk Weighted Exposure for Operational Risk | 1,126,733,348 | 1,126,733,348 |
| c | Risk Weighted Exposure for Market Risk | 54,211,708 | 52,316,120 |
| Adjustment under Pillar II | | | |
| | Add: 3% of the total RWE due to non-compliance of Disclosure Requirement (6.4 a10) | - | - |
| | Add: 1% of the total deposit due to insufficient Liquid Assets (6.4 a6) | 157,420,232 | - |
| | Add: 1% of the total Risk Weighted exposure as per NRB inspection | 171,233,658 | 167,409,059 |
| Total Risk Weighted Exposures (a+b+c) | | 17,452,019,690 | 16,908,314,981 |
| 1.2 CAPITAL | | Current Period | Current Period |
| Core Capital (Tier 1) | | 1,998,435,967 | 1,976,587,761 |
| a | Paid up Equity Share Capital | 1,311,552,000 | 1,311,552,000 |
| b | Irredeemable Non-cumulative preference shares | | |
| c | Proposed Bonus Equity Shares | - | - |
| d | Share Premium | 41,873,580 | 41,873,580 |
| e | Statutory General Reserves | 310,539,220 | 310,539,220 |
| f | Retained Earnings | 2,094,621 | 2,094,621 |
| g | Un-audited current year cumulative profit | 247,841,284 | 226,015,656 |
| h | Bond Redemption Reserve | 82,191,781 | 82,191,781 |
| i | Deffered Tax Reserve | 2,775,018 | 2,775,018 |
| j | Capital Adjustment Reserve | - | - |
| k | Dividend Equalization Reserves | - | - |
| l | Other Free Reserve | - | - |
| m | Less: Goodwill | - | - |
| n | Less: Miscellaneous Expenditure not written off | 431,537 | 454,115 |
| o | Less: Investment in equity in licensed Financial Institutions | - | - |
| p | Less: Investment in equity of institutions with financial interests | - | - |
| q | Less: Investment in equity of institutions in excess of limits | - | - |
| r | Less: Investments arising out of underwriting commitments | - | - |
| s | Less: Reciprocal crossholdings | - | - |
| t | Less: Other Deductions | - | - |
| Adjustment under Pillar II | | | |
| | Less: Shortfall in Provisions (6.4 a 1) | - | - |
| | Less: Loans and Facilities extended to Related Parties and Restricted Lending (6.4 a 2) | - | - |
| Supplementary Capital (Tier 2) | | 273,637,449 | 266,340,204 |
| a | Cumulative and/or Redeemable Preference Share | - | - |
| b | Subordinated Term Debt | 117,808,219 | 117,808,219 |
| c | Hybrid Capital Instruments | - | - |
| d | General loan loss provision | 141,903,282 | 134,606,037 |
| e | Exchange Equalization Reserve | 13,421,328 | 13,421,328 |
| f | Investment Adjustment Reserve | 504,620 | 504,620 |
| g | Assets Revaluation Reserve | - | - |
| h | Other Reserves | - | - |
| Total Capital Fund (Tier I and Tier II) | | 2,272,073,416 | 2,242,927,965 |
| 1.3 CAPITAL ADEQUACY RATIOS | | Current Period | Current Period |
| Tier 1 Capital to Total Risk Weighted Exposures | | 11.45% | 11.69% |
| Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures | | 13.02% | 13.27% |
| Minimum Capital fund required to be maintained on the basis of Risk Weighted Assets | | | |
| | Capital Fund (@ 10 Percent for this year) | 1,745,201,969 | 1,690,831,498 |
| | Core Capital (@ 6 Percent for this year) | 1,047,121,181 | 1,014,498,899 |
| 5.45% | Excess to Core Capital | 951,314,785 | 962,088,862 |
| 3.02% | Excess to Capital Fund | 526,871,447 | 552,096,467 |

Detail information of Subordinated Term Debts:

NIC Bond 2070

| | | |
|---------------|---|----------------------------|
| Face Value | : | Rs 1,000 each, |
| Total Value | : | Rs 200 Million |
| Issue date | : | 26 June 2006 |
| Maturity date | : | 25 th June 2013 |

Redemption Reserve

| | | |
|----------------|---|----------------------|
| For FY 2066/67 | : | Rs 40,000,000 |
| For FY 2065/66 | : | Rs 40,000,000 |
| For FY 2064/65 | : | <u>Rs 2,191,781</u> |
| Total | | Rs 82,191,781 |

2. Risk Exposure

Risk weighted exposures for Credit Risk, Market Risk and Operational Risk

NPR in 000'

| Risk weighted Exposures | Current Month |
|--|-------------------|
| a. Risk Weighted Exposure for Credit Risk | 15,942,421 |
| b. Risk Weighted Exposure for Operational Risk | 1,126,733 |
| c. Risk Weighted Exposure for Market Risk | 54,212 |
| d. Additional Risk Weighted Exposure due to insufficient Liquid Assets | 157,420 |
| e. Additional Risk Weighted exposure as per NRB inspection | 171,234 |
| Total Risk Weighted Exposures (a + b + c) | 17,452,020 |

Risk Weighted Exposures under each of 11 Categories of Credit Risk

NPR in 000'

| Particulars | Current Month |
|--|-------------------|
| Claims on Government and Central Bank | - |
| Claims on Other Official Entities | - |
| Claims on Banks | 545,636 |
| Claims on Corporate and securities firms | 7,907,922 |
| Claims on regulatory retail Portfolio | 2,474,681 |
| Claims secured by Residential Properties | 669,327 |
| Claims secured by Commercial real estate | 348,281 |
| Past due Claims | 46,872 |
| High Risk Claims | 1,966,873 |
| Other Assets | 665,201 |
| Off Balance- Sheet Items | 1,317,628 |
| Total | 15,942,421 |

Non Performing Assets

NPR in '000

| Particulars | NPR in '000 | |
|---------------------------------|----------------|---------------|
| | Gross NPAs | Net NPAs |
| Restructured / Reschedule Loans | | |
| Sub Standard Loans | 36,009 | 27,007 |
| Doubtful Loans | 14,149 | 7,075 |
| Loss | 58,737 | - |
| Total NPAs | 108,895 | 34,082 |

Ratio of Non Performing Asset

| Particulars | |
|-----------------------------|-------|
| Gross NPA to gross advances | 0.76% |
| Net NPA to net advances | 0.24% |

Movement of Non performing Assets

NPR in 000'

| Particulars | |
|------------------------------|---------|
| Opening NPA | 92,493 |
| Addition during the Year | 16,402 |
| NPA recovery during the Year | - |
| Closing NPA | 108,895 |

Write off Loan and Interest Suspense:

NPR in 000'

| Particulars | |
|--------------------|---|
| Write off Loan | - |
| Write off Interest | - |

Movements in LLP and Interest Suspense:

NPR in 000'

| Particulars | |
|----------------------------------|--------|
| Movements in Interest Suspense | 9,627 |
| Additional LLP during Six Months | 19,427 |

Summary of Bank's Internal Approach to assess Capital Adequacy

As per capital plan of the Bank, the requirement of capital fund is intended to be fulfilled by incremental annual transfer of profits. The bank shall grow its size gradually and steadily keeping in mind the capital requirements to support the business growth and maintaining robust standards of risk management of processes.